

Message Text

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TAGS: ENRG, EINV, VE

SUBJECT: OIL COMPANY OFFICIAL PREDICTS CONCESSIONAIRES

WILL ACCEPT GOV COMPENSATION BASE

1. SUMMARY. A VENEZUELAN OIL COMPANY EXECUTIVE, WHO IS ALSO AN ALTERNATE PETROVEN DIRECTOR AND PRESIDENT OF THE WHITE COLLAR OIL INDUSTRY ASSOCIATION KNOWN AS AGROPET, PUBLICLY PREDICTED THAT OIL CONCESSIONAIRES WILL ACCEPT THE GOV COMPENSATION OFFER. END SUMMARY.

2. GUSTAVO CORONEL, A SHELL OIL COMPANY EXECUTIVE, PREDICTED IN A PRESS INTERVIEW PUBLISHED SEPTEMBER 14 THAT THE OIL CONCESSIONAIRES WILL ACCEPT GOV DETERMINATION OF THE BASIS FOR INDEMNIZATION PAYMENT. CORONEL ACKNOWLEDGED THAT THERE IS CURRENTLY A DIFFERENCE OF INTERPRETATION AS TO WHAT CONSTITUTES ADEQUATE COMPENSATION BETWEEN THE CONCESSIONAIRES AND THE GOV. THE OIL INDUSTRY ACCEPTS THE CONCEPT OF NET BOOK VALUE, CORONEL EXPLAINED, BUT IS OPPOSED TO A RIGID INTERPRETATION OF THE NATIONALIZATION LAW THAT WOULD REQUIRE DEDUCTIONS FROM COMPENSATION FOR DRAINAGE FROM AREAS ADJACENT TO THE CONCESSIONS (ARTICLE 15). THESE POTENTIAL DEDUCTIONS WOULD BE DETERMINED UNILATERALLY BY THE NATIONAL EXECUTIVE.

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3. ACCORDING TO CORONEL, IT CANNOT BE DETERMINED SCIENTIFICALLY THAT SUCH EXCESSIVE DRAINAGE OCCURRED, PARTICULARLY IN AREAS ADJACENT TO CONCESSIONS THAT HAVE NOT BEEN EXPLORED. ALSO, HE ADDED, IN AREAS COVERED BY UNIFICATION AGREEMENTS BETWEEN CONCESSIONAIRES AND CVP, IT IS NOT TECHNICALLY POSSIBLE TO DETERMINE DRAINAGE. THIS IS BECAUSE THE STATE HAS NOT BEEN ABLE TO PRODUCE FROM THE UNITIZED FIELDS, BUT WILL BE ABLE TO DO SO AT A LATER DATE AT EVEN HIGHER OIL PRICES. A DECISION TO TAKE DEDUCTIONS FROM COMPENSATION FOR DRAINAGE WOULD HAVE TO BE "JURIDICAL", AND BE CALCULATED ON THE VARIOUS HISTORICAL PRICES OF OIL OVER THE LONG LIFE OF THE PRODUCTION. SUCH A JURIDICAL DEDUCTION IS NOT MERITED, CORONEL BELIEVES, AND WOULD RESULT IN THE OIL CONCESSIONAIRES BEING DISSATISFIED WITH THEIR COMPENSATION PAYMENTS.

4. REGARDING THE GOV DECISION NOT TO RECOGNIZE UNAMORTIZED INVESTMENTS, SUCH AS BONUSES PAID TO ACQUIRE CONCESSIONS, CORONEL DESCRIBED THIS DECISION AS A "CHANGE IN THE RULES OF THE GAME" WHICH HAS BEEN ACCEPTED "NOT WITH REJOICING BUT WITH RESIGNATION" ON THE PART OF THE COMPANIES. NEVERTHELESS, CORONEL ADDED THAT HE BELIEVES IT IS NOT IN THE INTEREST OF THE NATION, OR OF THE OIL COMPANIES TO LET THE SITUATION COME TO A CONFLICT. FOR THIS BASIC REASON, CORONEL PREDICTED THAT THE PARTIES WILL HAVE TO COME TO AN AGREEMENT "OF SOME TYPE".

5. COMMENT. THE CORONEL INTERVIEW WAS PUBLISHED AFTER HE LEFT FOR A ONE-MONTH BUSINESS TRIP TO ENGLAND. WE CANNOT, THEREFORE, DETERMINE WHETHER HE WAS DIVULGING PRIVILEGED INFORMATION. ANOTHER SHELL CONTACT CLOSE TO CORONEL DESCRIBED THE INTERVIEW AS REPRESENTING A PERSONAL VIEWPOINT. THE EMBASSY'S ASSESSMENT IS THAT, WHILE CORONEL IS PROBABLY ACCURATE ON THE NARROW ISSUE OF CASH COMPENSATION, THE INDIVIDUAL OIL CONCESSIONAIRES WOULD PREFER TO MAKE THEIR OWN STATEMENTS AT AN APPROPRIATE TIME ON THE ACCEPTABILITY OF THE COMPENSATION OFFER. THE COMPANIES TEND TO EXPECT THE WORST, BUT ARE RESERVING JUDGMENT UNTIL THEY SEE THE FINAL BOTTOM LINE AMOUNT. END COMMENT.
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